

(D) The contractor has a record of cost overruns or the indication of unreliable cost estimates and lack of cost control.

[64 FR 51473, Sept. 23, 1999]

1815.404-471-3 Contract type risk and working capital adjustment.

(a) *Risk factors.* The contract type risk factor focuses on the degree of cost risk accepted by the contractor under varying contract types. The working capital adjustment is an adjustment added to the profit objective for contract type risk. It applies to fixed-price type contracts that provide for progress payments. Though it uses a formula approach, it is not intended to be an exact calculation of the cost of

working capital. Its purpose is to give general recognition to the contractor's cost of working capital under varying contract circumstances, financing policies, and the economic environment. This adjustment is limited to a maximum of 2 percent.

(b) *Risk factor values and calculations.* A risk value is assigned to calculate the profit or fee objective for contract type. A contract length factor is assigned and applied to costs financed when a working capital adjustment is appropriate. This calculation is only performed when the prospective contract is a fixed-price contract containing provisions for progress payments.

(c) *Values: Normal and designated ranges.*

Contract Type	Note	Normal value (Percent)	Designated range (Percent)
Firm-fixed-price, no financing	(1)	5	4 to 6
Firm-fixed-price with performance-based payments	(6)	4	2.5 to 5.5
Firm-fixed-price with progress payments	(2)	3	2 to 4
Fixed-price-incentive, no financing	(1)	3	2 to 4
Fixed-price-incentive, with performance-based payments	(6)	2	.5 to 3.5
Fixed-price, redeterminable	(3)		
Fixed-price-incentive, with progress payments	(2)	1	0 to 2
Cost-plus-incentive-fee	(4)	1	0 to 2
Cost-plus-award fee	(4)	.75	.5 to 1.5
Cost-plus-fixed fee	(4)	.5	0 to 1
Time-and-materials	(5)	.5	0 to 1
Labor-hour	(5)	.5	0 to 1
Firm-fixed-price, level-of-effort, term	(5)	.5	0 to 1

(1) *No financing*, means that the contract either does not provide progress or performance based payments, or provides them only on a limited basis. Do not compute a working capital adjustment.

(2) When progress payments are present, compute a working capital adjustment.

(3) For purposes of assigning profit values, treat a fixed-price redeterminable contract as if it were a fixed-price-incentive contract with below normal provisions.

(4) Cost-plus contracts shall not receive the working capital adjustment.

(5) These types of contracts are considered cost-plus-fixed-fee contracts for the purposes of assigning profit values. Do not compute the working capital adjustment. However, higher than normal values may be assigned within the

designated range to the extent that portions of cost are fixed.

(6) When performance-based payments are used, do not compute a working capital adjustment.

(d) *Evaluation criteria.* (1) *General.* The contracting officer shall consider elements that affect contract type risk such as—

- (i) Length of contract;
- (ii) Adequacy of cost projection data;
- (iii) Economic environment;
- (iv) Nature and extent of subcontracted activity;
- (v) Protection provided to the contractor under contract provisions (e.g., economic price adjustment clauses);
- (vi) The ceilings and share lines contained in the incentive provisions; and
- (vii) The rate, frequency, and risk to the contractor of performance-based payments, if provided.

(2) *Mandatory.* The contracting officer shall assess the extent to which costs have been incurred prior to definitization of the contract. When costs have been incurred prior to definitization, generally regard the contract type risk to be in the low end of the designated range. If a substantial portion of the costs have been incurred prior to definitization, the contracting officer may assign a value as low as 0 percent regardless of contract type.

(3) *Above normal conditions.* The contracting officer may assign a higher than normal value when there is substantial contract type risk. Conditions indicating higher than normal contract type risk are—

(i) Efforts where there is minimal cost history;

(ii) Long-term contracts without provisions protecting the contractor, particularly when there is considerable economic uncertainty;

(iii) Incentive provisions that place a high degree of risk on the contractor;

(iv) Performance-based payments totaling less than the maximum allowable amount(s) specified at FAR 32.1004(b)(2); or

(v) An aggressive performance-based payment schedule that increases risk.

(4) *Below normal conditions.* The contracting officer may assign a lower than normal value when the contract type risk is low. Conditions indicating lower than normal contract type risk are:

(i) Very mature product line with extensive cost history;

(ii) Relatively short-term contracts;

(iii) Contractual provisions that substantially reduce the contractor's risk, e.g. economic price adjustment provisions; and

(iv) Incentive provisions that place a low amount of risk on the contractor.

(v) A performance-based payment schedule that is routine with minimal risk.

(e) *Costs financed.* (1) Costs financed equal the total costs multiplied by the percent of costs financed by the contractor.

(2) Total costs may be reduced as appropriate when—

(i) The contractor has little cash investment (e.g., subcontractor progress

payments are liquidated late in the period of performance);

(ii) Some costs are covered by special funding arrangements, such as advance payments;

(3) The portion financed by the contractor is generally the portion not covered by progress payments. (i.e.—for progress payments: 100 percent minus the customary progress payments rate. For example, if a contractor receives progress payments at 75 percent, the portion financed by the contractor is 25 percent. On contracts that provide progress payments to small business, use the customary progress payment rate for large businesses.)

(f) *Contract length factor.* (1) This is the period of time that the contractor has a working capital investment in the contract. It—

(i) Is based on the time necessary for the contractor to complete the substantive portion of the work;

(ii) Is not necessarily the period of time between contract award and final delivery, as periods of minimal effort should be excluded;

(iii) Should not include periods of performance contained in option provisions when calculating the objective for the base period; and

(iv) Should not, for multiyear contracts, include periods of performance beyond that required to complete the initial year's requirements.

(2) The contracting officer—

(i) Should use the following to select the contract length factor:

Period to perform substantive portion (in months)	Contract length factor
21 or less40
22 to 2765
28 to 3390
34 to 39	1.15
40 or more	1.40

(ii) Should develop a weighted average contract length when the contract has multiple deliveries; and

(iii) May use sampling techniques provided they produce a representative result.

(3) Example: A prospective contract has a performance period of 40 months with end items being delivered in the 34th, 36th, 38th and 40th months of the contract. The average period is 37

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months and the contract length factor is 1.15.

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1815.404-471-4 Other considerations.

(a) Other Considerations may be included by the contracting officer to account for special circumstances, such as contractor efficiencies or unusual acceptance of contractual or program risks that are not adequately addressed in the structured approach calculations described in 1815.404-471-2 or 1815.404-4713. The total adjustment resulting from Other Considerations may be positive or negative but in no case should the total adjustment exceed +/- 5 percent.

(b) The contracting officer shall analyze and verify information provided by the contractor that demonstrates that the special circumstances being recognized under this section—

(1) Provide substantial benefits to the Government under the contract and/or overall program;

(2) Have not been recognized in the structured approach calculations; and

(3) Represent unusual and innovative actions or acceptance of risk by the contractor.

(c) Examples of special circumstances include, but are not limited to the following:

(1) Consistent demonstration by the contractor of excellent past performance within the last three years, with a special emphasis on excellence in safety, may merit an upward adjustment of as much as 1 percent. Similarly, an assessment of poor past performance, especially in the area of safety, may merit a downward adjustment of as much as -1 percent. This consideration is especially important when negotiating modifications or changes to an ongoing contract.

(2) Extraordinary steps to achieve the Government's socioeconomic goals, environmental goals, and public policy goals established by law or regulation that are sufficiently unique or unusual may merit an upward adjustment of as much as .5 percent. Similarly, for non-participation in or violation of Federal programs, the contracting officer may adjust the objective by as much as -.5 percent. However, this consideration does not apply to the utilization of

small disadvantaged businesses. Incentives for use of these firms may only be structured according to FAR 19.1203 and 19.1204(c).

(3) Consideration of up to 1 percent should be given when contract performance requires the expenditure of significant corporate capital resources.

(4) Unusual requests for use of government facilities and property may merit a downward adjustment of as much as -1 percent.

(5) Cost efficiencies arising from innovative product design, process improvements, or integration of a life cycle cost approach for the design and development of systems that minimize maintenance and operations costs, that have not been recognized in Performance Risk or Contract Type Risk, may merit an upward adjustment. This factor is intended to recognize and reward improvements resulting from better ideas and management that will benefit the Government in the contract and/or program.

(d) Other considerations need not be limited to situations that increase profit/fee levels. A negative consideration may be appropriate when there is a significant expectation of near-term spin-off benefits as a direct result of the contract.

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1815.404-471-5 Facilities capital cost of money.

(a) When facilities capital cost of money is included as an item of cost in the contractor's proposal, it shall not be included in the cost base for calculating profit/fee. In addition, a reduction in the profit/fee objective shall be made in the amount equal to the facilities capital cost of money allowed in accordance with FAR 31.205-10(a)(2) or 1 percent of the cost base, whichever is less.

(b) CAS 417, cost of money as an element of the cost of capital assets under construction, should not appear in contract proposals. These costs are included in the initial value of a facility for purposes of calculating depreciation under CAS 414.

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